



December 2021

BANK SECRECY ACT

Views on Proposals to Improve Banking Access for Entities Transferring Funds to High-Risk Countries

Accessible Version



A Century of Non-Partisan Fact-Based Work

Why GAO Did This Study

Some money transmitters (a type of nonbank financial institution) and nonprofit charitable organizations transfer funds to foreign countries' populations in need, such as areas experiencing conflicts or humanitarian crises. These organizations need bank accounts and other bank services to make these fund transfers. However, banks may be reluctant to provide these services when recipients of funds are in countries at high risk for money laundering or terrorist financing. The National Defense Authorization Act for Fiscal Year 2021 included a provision for GAO to identify options to address this issue.

This report discusses banking access challenges reported by U.S. money transmitters and nonprofits that transfer funds to recipients in high-risk countries and the drivers of these challenges, and stakeholder views on proposals for increasing banks' willingness to serve these customers, among other objectives.

GAO reviewed academic, industry, international organization, and think tank literature, as well as documentation from federal banking regulators and Treasury. GAO also interviewed agency staff, industry associations, and experts and held five discussion groups with representatives of banks, money transmitters, and nonprofits, which were selected to reflect a range of sizes and geographic areas served.

View [GAO-22-104792](#). For more information, contact Michael E. Clements at (202) 512-8678 or clements@gao.gov.

BANK SECRECY ACT

Views on Proposals to Improve Banking Access for Entities Transferring Funds to High-Risk Countries

What GAO Found

Money transmitters and nonprofits that transfer funds to recipients in countries at high risk for money laundering or terrorist financing have reported bank account closures and delays or denials of requests to transfer funds. These banking access challenges can affect the provision of financial support and humanitarian aid in areas experiencing political conflicts or natural disasters. Bank representatives told GAO they limit or deny services to money transmitters and nonprofits largely because of their efforts to comply with Bank Secrecy Act/anti-money laundering (BSA/AML) regulations. For instance, they cited the high costs of conducting the due diligence necessary to ensure funds distributed in high-risk countries are not used for illicit purposes. They noted that these countries often lack adequate and transparent frameworks for countering money laundering and terrorist financing. Bank representatives also cited heightened scrutiny they receive from regulators when banking higher-risk money transmitters and nonprofits and uncertainty about regulatory expectations for conducting due diligence.

Among the representatives of banks, money transmitters, nonprofits, and federal agencies with whom GAO spoke, views varied on the best ways to address money transmitters' and nonprofits' banking access challenges. These industry stakeholders and federal agency staff discussed the benefits, limitations, and other considerations associated with several proposals commonly cited in relevant literature to improve banking access for money transmitters and nonprofits. For example:

- **Know-your-customer utilities** refer to centralized sources of customer information (e.g., documentation of their licensing or internal controls) that banks can access to conduct their BSA/AML due diligence. Some industry stakeholders said use of these utilities for money transmitter or nonprofit information could lower banks' general compliance costs—particularly if the utilities provided analysis of customer risks that banks could rely on to satisfy their due diligence requirements. However, among other limitations, these utilities would not solve key due diligence challenges associated with the lack of transparency in some high-risk countries, according to some stakeholders and federal agency staff.
- An **enhanced federal role** in facilitating fund transfers could be useful in emergency humanitarian cases in countries where the high risk of money laundering or terrorist financing generally impedes banking services, according to several stakeholders and some federal banking regulator staff. For example, a U.S. agency with a physical presence in a particularly high-risk country could serve as the intermediate recipient of funds, with responsibility for distributing the funds to the intended beneficiaries. However, staff from the Department of the Treasury said such federal involvement could have unintended consequences. For example, if the U.S. government were to make it easier to transfer funds to countries considered high risk because they lack proper governance, it could reduce those countries' motivation to enact fundamental government reforms to lower their risk levels.

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Abbreviations

ACAMS	Association of Certified Anti-Money Laundering Specialists
AML	anti-money laundering
AML Act	Anti-Money Laundering Act of 2020
BSA	Bank Secrecy Act
CFT	countering the financing of terrorism
COVID-19	Coronavirus Disease 2019
CRA	Community Reinvestment Act
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network
IRS	Internal Revenue Service
KYC	know your customer
MSB	money services business
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
TMNL	Transaction Monitoring Netherlands
TRAC	Transaction Record Analysis Center
USAID	U.S. Agency for International Development

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December 16, 2021

The Honorable Sherrod Brown
Chairman
The Honorable Patrick J. Toomey
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

In recent years, we and others have reported that money transmitters and nonprofit organizations¹ that transfer funds to recipients in countries perceived as or known to be at a high risk for money laundering or terrorist activity have reported difficulties accessing banking services, including experiencing account terminations.² These challenges can affect these entities' ability to transfer funds to populations in need, such as in poor countries or areas experiencing conflict. For example, nonprofits may face long delays in transferring funds or be unable to

¹A money transmitter includes a person—such as an individual, corporation, or partnership—that provides money transmission services. Money transmission services are provided when a money transmitter accepts currency, funds, or other value that substitutes for currency from a person and transmits that value to another location or person by any means. Whether a person is a money transmitter for Bank Secrecy Act purposes is a matter of facts and circumstances. 31 C.F.R. § 1010.100(ff)(5). We use “nonprofits” to refer to charitable organizations and other organizations with tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

²See GAO, *Remittances to Fragile Countries: Treasury Should Assess Risks from Shifts to Non-Banking Channels*, [GAO-18-313](#) (Washington, D.C.: Mar. 8, 2018); *Humanitarian Assistance: USAID Should Improve Information Collection and Communication to Help Mitigate Implementers' Banking Challenges*, [GAO-18-669](#) (Washington, D.C.: Sept. 20, 2018); Sue Eckert, Kay Guinane, and Andrea Hall, Charity and Security Network, *Financial Access for U.S. Nonprofits* (Washington, D.C.: February 2017); and Clay Lowery et al., Center for Global Development, *Policy Responses to De-Risking: Progress Report on the CDG Working Group's 2015 Recommendations* (Washington, D.C.: 2018).

transfer funds at all to implement projects or respond to humanitarian disasters.

Banking access challenges often stem from banks' efforts to comply with Bank Secrecy Act (BSA) and anti-money laundering (AML) regulations. The BSA is an important tool in federal law enforcement efforts to detect and deter the use of financial institutions for criminal activity—including money laundering and terrorist financing—that can threaten national security and the integrity of the financial system.³ The BSA and its implementing regulations generally require financial institutions, including banks, to collect and retain various records of customer transactions, verify customers' identities, maintain AML programs, and report suspicious transactions. Financial institutions must also comply with relevant regulations that implement U.S. sanctions, which are intended to protect the U.S. financial system from abuse and support U.S. policy goals.

Derisking refers to actions taken by a financial institution to avoid risk by terminating, failing to initiate, or restricting a business relationship with a customer, or a category of customers, rather than manage the risk associated with that relationship.⁴ We have reported on actions the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators have taken to address derisking, such as issuing guidance to banks to clarify expectations for providing banking services to money transmitters and nonprofits. However, international development organizations, such as the World Bank and Center for Global Development, and advocacy organizations,

³Pub. L. No. 91-508, 84 Stat. 1114-24 (1970) (codified as amended in scattered sections of 12 U.S.C., 18 U.S.C., and 31 U.S.C.).

⁴The William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 defines derisking as actions taken by a financial institution to terminate, fail to initiate, or restrict a business relationship with a customer, or a category of customers, rather than manage the risk associated with that relationship consistent with risk-based supervisory or regulatory requirements, due to drivers such as profitability, reputational risk, lower risk appetites of banks, regulatory burdens or unclear expectations, and sanctions regimes. Pub. L. No. 116-283, § 6215(c)(1), 134 Stat. 3388, 4580-81 (2020). In prior work, we have defined derisking as the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering. See [GAO-18-313](#); [GAO-18-669](#); GAO, *Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Review*, [GAO-18-263](#) (Washington, D.C.: Feb. 26, 2018); and *Bank Secrecy Act: Examiners Need More Information on How to Assess Banks' Compliance Controls for Money Transmitter Accounts*, [GAO-20-46](#) (Washington, D.C.: Dec. 3, 2019).

such as the Charity and Security Network, remain concerned that without additional actions, money transmitters and nonprofits will continue to face challenges accessing banking services.

The National Defense Authorization Act for Fiscal Year 2021 includes a provision for us to identify options for banks serving high-risk categories of customers that could minimize the negative effects of BSA/AML requirements on these customers.⁵ It also directs Treasury to consider the results of our work in developing a strategy to promote financial inclusion of developing countries—often countries considered high risk—while maintaining BSA compliance.⁶ This report discusses

1. banking access challenges reported by money transmitters and nonprofits transferring funds to recipients in high-risk countries and the drivers of these challenges,
2. actions Treasury and the federal banking regulators have recently taken or plan to take to address these challenges, and
3. stakeholder views on proposals intended to increase banks' willingness to serve money transmitters and nonprofits transferring funds to recipients in high-risk countries.

To address our first objective, we used prior GAO work and ProQuest and other search tools to identify and review relevant studies and articles prepared by academics, policy institutions, international organizations, and industry associations representing banks, money transmitters, and nonprofits.⁷ We also conducted five discussion groups with representatives from a nonrandom sample of banks, money transmitters, and nonprofits (two to five organizations in each discussion group), chosen to represent a range of sizes and—for money transmitters and nonprofits—targeted geographic regions.

⁵William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, § 6215(b)(2)(C), 134 Stat. 3388, 4580-81 (2020).

⁶Pub. L. No. 116-283, § 6215(c).

⁷[GAO-18-313](#), [GAO-18-669](#), [GAO-18-263](#), and [GAO-20-46](#).

To address our second objective, we reviewed prior GAO reports, federal agency statements and guidance, and relevant sections of the Anti-Money Laundering Act of 2020 (AML Act).⁸

To address our third objective, we reviewed relevant literature to identify proposals or recommendations for improving banking access for entities transferring money to recipients in high-risk countries. We focused on proposals involving U.S. government or private industry solutions rather than solutions that would require international organizations to play a key role. We identified and categorized the most commonly cited proposals and obtained input on them in our discussion groups.

For all three objectives, we interviewed officials from Treasury and the federal banking regulators—the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA)—and the Money Transmitter Regulators Association (representing state regulators of money transmitters).⁹ We also interviewed associations representing banks, money transmitters, nonprofits, and BSA/AML compliance experts; a think tank; and an academic expert.¹⁰ More detailed information on our methodology can be found in appendix I.

We conducted this performance audit from February 2021 to December 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁸The AML Act was passed as part of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, div. F, 134 Stat. 3388, 4547 (2021).

⁹For purposes of this report, unless otherwise indicated, we use “banks” generally to refer to both banks and credit unions, and “federal banking regulators” to include NCUA.

¹⁰We interviewed the following associations: American Bankers Association; Independent Community Bankers of America; Association of Certified Anti-Money Laundering Specialists; Money Services Business Association; Money Services Round Table; INFiN, a Financial Services Alliance; Charity and Security Network; and InterAction.

Background

BSA/AML Regulations and U.S. Sanctions

The BSA established reporting, recordkeeping, and other AML requirements for financial institutions. When performing money transfers, banks and nonbank financial institutions, including money transmitters, must comply with BSA/AML regulations and other relevant regulations that implement U.S. sanctions.

Regulation under and enforcement of the BSA involve several federal agencies. FinCEN is responsible for administering the BSA and has authority for enforcing compliance with its requirements and implementing regulations. FinCEN has delegated BSA/AML examination authority for banks to the federal banking regulators, each of which has independent authority to initiate enforcement actions against supervised institutions for violations of law and to seek civil money penalties. FinCEN has delegated authority to the Internal Revenue Service (IRS) to investigate most criminal violations of the BSA. The Department of Justice prosecutes violations of federal criminal money-laundering statutes, including violations of the BSA, and several law enforcement agencies conduct BSA-related criminal investigations.

In addition to BSA regulations established by FinCEN, the federal banking regulators have issued BSA/AML regulations that require banks they supervise to establish and maintain a BSA/AML compliance program that includes policies, procedures, and processes to identify and report suspicious activity. Federal banking regulators are required to review banks' compliance with BSA/AML requirements and regulations, which they do as a part of their routine safety and soundness examinations. FinCEN has delegated to IRS the examination authority for BSA/AML compliance for certain entities, including money transmitters. In addition, according to Treasury, all but one state requires money transmitters to obtain licenses from states in which they are incorporated or conduct business. State supervisory agencies also may conduct BSA/AML examinations of licensed money transmitters.

Banks and nonbank financial institutions, including money transmitters, also must comply with regulations that implement U.S. sanctions. When the United States imposes sanctions on an entity or individual, it often imposes blocking sanctions, which freeze assets subject to U.S. jurisdiction. In those instances, all U.S. persons are generally prohibited

from engaging in transactions with the blocked entity or individual, including transactions by banks, money transmitters, and nonprofits, unless authorized by Treasury's Office of Foreign Assets Control (OFAC) or otherwise exempt or excepted under certain statutory or regulatory provisions.¹¹ When appropriate, OFAC may publicly issue a general license authorizing all U.S. persons to engage in certain categories of transactions, including fund transfers for the provision of humanitarian assistance. OFAC also issues specific licenses on a case-by-case basis under certain limited situations and conditions.

To ensure consistent application of BSA/AML requirements, in 2005, the federal banking regulators developed an examination manual issued by the Federal Financial Institutions Examination Council (FFIEC), in consultation with FinCEN and OFAC, for federal bank examiners conducting BSA/AML examinations of banks. The BSA/AML examination manual has been revised several times since its initial release, with most recent revisions to certain sections in 2020 and again in 2021. Similarly, in 2008, FinCEN issued a BSA examination manual to guide reviews of money transmitters and other types of money services businesses (MSB), including reviews by IRS and state regulators.¹² Both the FFIEC BSA/AML and FinCEN MSB examination manuals are publicly available.

According to the FFIEC BSA/AML examination manual, a key function of examinations is to assess whether a bank has established the appropriate policies, procedures, and processes to identify and report suspicious activity based on its unique risk profile for money laundering, terrorist financing, and other illicit financial activity. The manual directs examiners to tailor the BSA/AML examination scope and procedures to the bank's specific risk profile. Examiners begin a BSA/AML examination by reviewing the bank's BSA/AML risk management practices and determining whether its risk assessment process accurately identifies risks. In doing so, examiners assess whether the bank has considered all products, services, customers, and geographic locations, and whether the

¹¹A U.S. person includes U.S. citizens, wherever located; lawful permanent residents, wherever located; entities organized under U.S. law (e.g., corporations); all entities and persons located in the United States; and entities owned or controlled by U.S. citizens.

¹²Under FinCEN's BSA/AML regulations, money transmitters are a type of MSB. Other types of MSBs include, subject to exception, dealers in foreign exchange, check cashers, issuers or sellers of traveler's checks or money orders, providers or sellers of prepaid access (such as prepaid cards), and the U.S. Postal Service. 31 C.F.R. § 1010.100(ff).

bank has analyzed the information obtained relative to those risk categories.

Examiners also review the bank's written BSA/AML compliance program and determine whether the bank has adequately incorporated the risk it identified through its risk assessment process into its BSA/AML compliance program. As part of these examination procedures, examiners conduct risk-focused testing to evaluate the adequacy of the bank's compliance with regulatory requirements; determine the effectiveness of its policies, procedures, and processes; and evaluate systems for monitoring suspicious activity. While OFAC regulations are not part of the BSA, the FFIEC BSA/AML examination manual includes procedures for examining a bank's policies, procedures, and processes for ensuring compliance with OFAC sanctions.

BSA/AML Compliance Programs for Banks and Money Transmitters

The BSA requires banks and money transmitters to design and implement a written AML compliance program, report certain transactions to Treasury, and meet recordkeeping requirements (including identity documentation) for certain transfers of \$3,000 or more. At a minimum, each AML compliance program must, in general

- establish a system of AML compliance policies, procedures, and internal controls to ensure ongoing compliance;
- designate an individual to coordinate and monitor day-to-day compliance;
- provide training for appropriate personnel; and
- provide for an independent audit function to test for compliance.

BSA/AML regulations additionally require that each bank tailor a compliance program that is specific to its own risks based on factors such as the products and services offered and the customers and locations served. BSA/AML compliance programs for banks are required to include the following:

- **Customer identification program.** Banks must have written procedures for opening accounts that specify what identifying

information they will obtain from each customer.¹³ Banks' customer identification programs must also include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. Additionally, a bank's customer identification program should contain procedures for circumstances when a bank cannot reasonably verify the customer's identity, including procedures for when the bank should not open an account and when the bank should close an account.

- **Customer due diligence procedures.** Banks must develop and implement appropriate risk-based procedures for conducting ongoing customer due diligence.¹⁴ These procedures assist banks in determining when transactions are potentially suspicious. Procedures must be designed to achieve two minimum regulatory requirements: (1) understanding the nature and purpose of customer relationships so customer risk profiles can be developed and (2) conducting ongoing monitoring to identify and report suspicious activity and to maintain and update customer information based on an assessment of risk.
- **Additional due diligence procedures.** Due diligence procedures also should define when and what additional information will be collected for customers who banks determine may pose a higher risk for money laundering or terrorist financing. Procedures should be based on each customer's risk profile and specific risks posed. Banks review higher-risk customers and their transactions more closely at account opening and more frequently throughout the term of their relationship with the bank.

In addition, banks and money transmitters must have policies and procedures to monitor transactions and identify suspicious activity. Monitoring may include (1) manual review of transaction summary reports to identify suspicious transactions or (2) automated monitoring systems that identify patterns of unusual activity. As we previously reported, banks with large transaction volumes typically use automated monitoring

¹³At a minimum, the bank must obtain the following identifying information from each customer before opening the account: name, date of birth (for individuals only), address, and identification number, such as a Social Security number or a passport number.

¹⁴31 CFR 1020.210(a)(2).

systems.¹⁵ Banks and money transmitters also must comply with certain reporting requirements.¹⁶

Money-Laundering and Terrorist-Financing Risks Posed by Money Transmitters and Nonprofits

The money transfer industry is diverse, ranging from Fortune 500 companies with numerous outlets worldwide to small, independent money transmitters. Money transmitters may send and receive funds domestically or internationally. Money transmitters typically work through agents—separate business entities generally authorized to send and receive money transfers. Money transmitters operate through their own retail storefronts or through grocery stores, financial service outlets, convenience stores, and other retailers that serve as agents. Money transfers can be initiated in person at these retail outlets. Money transmitters can also offer online money transfer services.

For transfers at or above \$3,000, senders must generally provide basic information about themselves (including name and address) that the agent verifies at the time of the transfer request.¹⁷ The agent processes the transaction, and the money transmitter's headquarters screens it to validate BSA/AML compliance. The money is then transferred to a recipient via a distributing agent or bank. In an international money transfer, the money may be distributed through an agent in the destination country, wired through the money transmitter's bank to the distributor agent's bank, or transferred by other means to a specified agent in the recipient's country. The distributor agent pays out cash to the recipient in either U.S. dollars or local currency. If the money transmitter's bank does not have a direct relationship with a bank in the recipient country, the bank-to-bank transfer scenario becomes more complicated.

¹⁵[GAO-18-263](#).

¹⁶Banks and money transmitters must electronically file currency transaction reports for each transaction or a combination of transactions in a single day—such as a deposit, withdrawal, exchange, or other payment or transfer—in currency of more than \$10,000. Banks and money transmitters must file suspicious activity reports when, among other things, (1) a transaction involves or aggregates at least \$5,000 in funds or other assets for banks or at least \$2,000 in funds or other assets for money transmitters and (2) the institution knows, suspects, or has reason to suspect that the transaction is suspicious.

¹⁷FinCEN staff said that many money transmitters require this information at lower dollar thresholds, particularly if there is higher potential risk.

In such cases, one or more financial institutions may rely upon correspondent banking relationships to complete the transaction.¹⁸

Money transfers can pose money-laundering and terrorist-financing risks. We and others have identified money-laundering and terrorist-financing risks associated with money transmitters, including risks related to agents, customers, geographic location, and products.

- **Agents.** Money transmitters often work with multiple agents, and they may find maintaining adequate oversight of these agents challenging.
- **Customers.** Certain customers may pose heightened risk because of the nature of their business, occupation, or transaction activity. Additionally, in certain instances, customers may be able to launder money while remaining anonymous. For example, they may attempt to use false identities or straw men (individuals hired to conduct transfers on behalf of others) to keep from being identified as the original source of the funds.
- **Geographic location.** Certain geographic locations may be more vulnerable to money laundering or terrorist financing via money transfers. High-risk geographic locations can be either international or domestic. According to FinCEN's MSB examination manual, examples of international high-risk geographic locations include countries subject to sanctions by OFAC or major money laundering countries and jurisdictions identified by the Department of State.
- **Products.** According to the FFIEC BSA/AML and FinCEN MSB examination manuals, certain products and services may pose a higher risk of money laundering because of the degree of anonymity they can offer.

Federal agencies and international organizations have identified instances where money transfers have been used to launder proceeds from illicit activities, such as human smuggling and trafficking, drug trafficking, and consumer fraud, including the following examples:

¹⁸A nonprofit's bank may also need to rely upon correspondent banking relationships if the bank does not have a direct relationship with a bank in the recipient country. A correspondent account is any account established to receive deposits from or make payments on behalf of a foreign financial institution, or handle other financial transactions related to such institution. 31 U.S.C. § 5318(k)(1)(C) incorporating by reference 31 U.S.C. § 5318A(e)(1)(B).

- In 2017, a large money transmitter entered into a \$586 million settlement with the Department of Justice, the Federal Trade Commission, and the U.S. Attorneys' offices for several states after it was accused of, among other things, processing money transfers that were suspected of being used to pay human smugglers in China.¹⁹
- In 2012, the Department of Justice found that a large money transmitter's agents knowingly participated in a scheme in which victims wired funds to the transmitter's agents and outlets in response to fraudulent claims, such as promising victims they would receive large cash prizes or lottery winnings, falsely offering various high-ticket items for deeply discounted prices, falsely promising employment opportunities, or posing as a relative of the victim and claiming to be in trouble and in urgent need of money.²⁰
- In a 2011 case, seven people were sentenced for money laundering and drug trafficking involving the transfer of funds from the U.S. Virgin Islands to Alaska. Hundreds of thousands of dollars in payment for the drugs were sent using a large money transmitter in amounts averaging less than \$2,000 per wire transfer, a money-laundering method known as structuring.²¹

According to Treasury's 2018 *National Terrorist Financing Risk Assessment*, charitable organizations—including nonprofits—implementing humanitarian assistance in high-risk areas may be vulnerable to exploitation by terrorist groups and their support networks.²² These terrorist groups and support networks may establish or abuse nonprofits to raise and move funds, or provide other forms of support, that

¹⁹Federal Trade Commission, "Western Union Admits Anti-Money Laundering Violations and Settles Consumer Fraud Charges, Forfeits \$586 Million in Settlement with FTC and Justice Department," press release, January 19, 2017, <https://www.ftc.gov/news-events/press-releases/2017/01/western-union-admits-anti-money-laundering-violations-settles>.

²⁰Department of Justice. "Moneygram International Inc. Admits Anti-Money Laundering and Wire Fraud Violations, Forfeits \$100 Million in Deferred Prosecution," press release no. 12-1336, November 9, 2012, <https://www.justice.gov/opa/pr/moneygram-international-inc-admits-anti-money-laundering-and-wire-fraud-violations-forfeits>.

²¹In its 2015 National Money Laundering Risk Assessment, Treasury identified structuring as a common money laundering method used in the United States and a money laundering vulnerability for money transmitters. Department of the Treasury, *2015 National Money Laundering Risk Assessment* (Washington, D.C.: 2015).

²²Department of the Treasury, *National Terrorist Financing Risk Assessment* (Washington, D.C.: 2018). The National Terrorist Financing Risk Assessment identifies the terrorist financing threats, vulnerabilities, and risks that the United States currently faces.

benefit the terrorist groups. Treasury staff said that as of October 2021, Treasury, through OFAC, had designated 68 nonprofits for violations of U.S. sanctions.

Banks' Concerns about BSA/AML and Sanctions Compliance Drive Money Transmitters' and Nonprofits' Access Challenges

Banking Access Challenges Include Fund Transfer Delays and Denials and Account Closures

Money transmitters that remit funds to recipients in high-risk countries have reported several challenges in accessing banking services, including banks closing their accounts, difficulties obtaining new accounts, and high costs in maintaining accounts. For example, in our March 2018 report, all of the 12 money transmitters serving Haiti, Liberia, Nepal, and Somalia that we interviewed said that they or their agents had lost accounts with banks during the prior 10 years.²³

Representatives from money transmitters with whom we spoke for this report (which transfer funds from the United States to the Middle East, Africa, the Caribbean, and Latin America) and their associations told us that these banking access challenges continue. For example, a money transmitter serving Caribbean countries said banks would serve his business for no more than 2–3 years before terminating the account, forcing the business to find a new bank. According to the Global Center on Cooperative Security and Oxfam International, constraints on money transmitters' access to banking services may have significant humanitarian, economic, and security implications, effectively cutting off funds and isolating communities from the global financial system.²⁴

²³GAO-18-313. These countries were identified as high risk because of their weak capacity to carry out basic governance functions and their vulnerability to internal and external shocks, such as economic crises or natural disasters.

²⁴Tracey Durner and Liat Shetret, Global Center on Cooperative Security and Oxfam International, *Understanding Bank Derisking and Its Effects on Financial Inclusion* (Oxford, United Kingdom: Oxfam International, November 2015), 3.

Nonprofits providing humanitarian assistance to high-risk countries also have reported experiencing banking access challenges, including delays or denials of fund transfers, fee increases, refusal to open new accounts, and account closures. In the Charity and Security Network's 2017 survey of U.S.-based nonprofits that work internationally, two-thirds of the nonprofits surveyed reported such challenges, including transfer delays (37 percent), fee increases (33 percent), refusal to open new accounts (10 percent), and account closures (6 percent).²⁵ In September 2018, we reported that 15 of the 18 State Department and U.S. Agency for International Development (USAID) nonprofit implementing partners we interviewed reported banking access challenges on their global portfolios over the previous 5 years, with transfer delays and denials cited as the most common challenges.²⁶

Representatives from nonprofit associations and nonprofits we spoke with for this report, working in a variety of countries, told us that delays and denials of transfers continue to be frequent banking access challenges. The Charity and Security Network documented that one member reported banks turning back every wire transfer into Sudan over the past 6 years, significantly affecting its ability to fund ongoing programs that provide educational opportunities in Sudanese refugee camps.

As we previously reported, these challenges cause some nonprofits to reduce the scope of or delay funding of humanitarian projects, and in some situations suspend projects completely.²⁷ At the 2016 World Bank Stakeholder Dialogue on Derisking, nonprofits, banks, and others stated that the resulting inability to get humanitarian assistance to refugees from political conflicts or natural disasters could lead to death from starvation, exposure, and disease.²⁸

²⁵Charity and Security Network, *Financial Access for U.S. Nonprofits*. The study included a survey that was designed to be generalizable to the population of all U.S. nonprofit organizations with activities outside the United States, including providing humanitarian assistance. This survey received more than 300 responses.

²⁶GAO-18-669. "Implementing partners" refers to nonprofits receiving funds from USAID to implement their humanitarian projects.

²⁷GAO-18-669.

²⁸World Bank and the Association of Certified Anti-Money Laundering Specialists, *Stakeholder Dialogue on De-Risking: Findings and Recommendations* (Washington, D.C.: 2016), 7.

Hawalas

Money transmitters and nonprofits sometimes use hawalas to send funds to areas where they do not have banking relationships. A hawala is an informal value transfer system, where a customer hands cash to a person known as a broker and requests that an equivalent amount be delivered in local currency to a recipient in a different country. The broker in the sending country then contacts a broker in the receiving country and asks that the funds be disbursed to the recipient. In most cases, fees are factored into the exchange rate or the amount that is disbursed. Settlements of debts between hawala brokers can take a variety of forms (such as goods, services, properties, transfers of employees, etc.) and need not take the form of direct cash transactions.

Source: [GAO-18-313](#). | GAO-22-104792

To work around banking access issues, money transmitters and nonprofits sometimes use nonbanking channels such as direct cash transfers to transfer funds to recipients in high-risk countries. For example, several money transmitters we interviewed for our March 2018 report, including all of the Somali money transmitters, told us they were using nonbanking channels to transfer funds, such as couriers or armored trucks that transport cash domestically (to the money transmitter's main offices or bank) or internationally.²⁹ (See sidebar for a description of one nonbanking method of transferring funds called hawalas.)

Representatives from the Money Services Round Table, the Money Services Business Association, the Money Transmitter Regulators Association, and nonprofit associations told us this practice continues. For example, a consultant to banks and MSBs on BSA/AML compliance issues described how, prior to travel restrictions related to the Coronavirus Disease 2019 (COVID-19) pandemic, lack of banking access forced money transmitters to take suitcases of cash (using appropriate reporting for customs) by plane to Dubai, to then deliver the cash to Somalia. Similarly, in a report from the Norwegian Refugee Council, a nonprofit representative described staff entering Syria carrying €500,000 (\$591,000) hidden in their clothes to get money into the country.³⁰ As we have previously reported, the use of nonbanking channels such as cash transfers creates dangers for couriers and agents transporting money and creates a lack of transparency for law enforcement on where funds are going.³¹

Banks Limit Access for Some Money Transmitters and Nonprofits Largely Because of Concerns about BSA/AML and Sanctions Compliance

Some banks deny or limit services to money transmitters and nonprofits transferring funds to recipients in high-risk countries largely because of concerns related to BSA/AML compliance, according to representatives from banks and their associations, members of the Association of

²⁹[GAO-18-313](#).

³⁰Emma O'Leary, Norwegian Refugee Council, *Principles Under Pressure: The Impact of Counterterrorism Measures and Preventing/Countering Violent Extremism on Principled Humanitarian Action* (Oslo, Norway: 2018).

³¹[GAO-18-313](#).

Certified Anti-Money Laundering Specialists (ACAMS), and federal banking regulator staff.³² Increased sanctions activity in recent years has also been a factor, according to representatives of nonprofit associations, the American Bankers Association, and Treasury and federal banking regulator staff.

Profitability and BSA/AML compliance costs. The high cost of conducting the necessary due diligence and account monitoring for nonprofits and money transmitters transferring funds to recipients in high-risk countries often outweighs the revenue they generate, according to all representatives from banks and their associations, ACAMS members, and OCC staff with whom we spoke. Treasury staff told us that banking access challenges primarily result from profitability concerns but can often be exacerbated by banks' BSA/AML compliance efforts. They further noted that banks also weigh other factors such as reputational risk (discussed below) against very limited profits from serving these types of customers.

In determining whether to provide banking services, banks weigh profitability considerations more heavily for money transmitters than for nonprofits, according to ACAMS members. They said that if the bank only facilitates fund transfers from the money transmitter's customers to the money transmitter's operating account at another bank, the bank earns limited revenue and may not be able to justify the increased compliance expense. However, if the bank provides significant services to the money transmitter, such as deposit or operating accounts or the provision of credit and loans, the revenue could justify the increased compliance costs. In contrast, the ACAMS members and an academic expert said that banks that provide services to nonprofits are not necessarily looking to generate large amounts of revenue and income, but instead may provide services out of a sense of corporate responsibility.

Several representatives from banks and their associations and ACAMS members we interviewed for this report cited high due diligence costs associated with facilitating money transmitter and nonprofit transfers to recipients in countries that lack adequate frameworks for countering money laundering and terrorist financing or that have limited governance capacity. Some bank representatives and ACAMS members mentioned the high cost of infrastructure to support due diligence for these types of

³²These factors are consistent with our prior work reviewing the factors contributing to banks' decisions to terminate or limit banking services for money transmitters. See [GAO-18-313](#) and [GAO-20-46](#).

transfers, with human capital being the most significant cost. ACAMS members noted that bank staff must spend substantial additional time conducting high-risk account and transaction monitoring and undergoing extensive reviews by internal auditors and regulatory examinations.

Some bank representatives said that in countries where due diligence challenges around regulatory frameworks and governance are severe, such as Somalia or Syria, there are no means by which banks can overcome the risks of money laundering or terrorist financing. A key reason, according to some representatives from banks and their associations, is that a lack of transparency in many high-risk countries makes it difficult or impossible to fully identify and assess banks' money laundering and terrorist financing risks. For example, several bank representatives noted that in some high-risk countries, verifying the identity of recipients is difficult. ACAMS members stated that in these cases, banks cannot mitigate the risk of terrorist financing other than by not providing banking services to customers that transfer funds to locations of known terrorists.

Some bank representatives also expressed concerns over the adequacy of money transmitters' efforts to conduct due diligence on remittance senders as part of the money transmitters' BSA/AML requirements. They noted that banks have little visibility into the individual transactions that are netted and pass through the money transmitters' bank accounts.³³ One bank representative noted that the bank therefore must conduct additional due diligence, such as on-site company visits, which increases the cost of banking these customers. Several bank representatives also stated that while money transmitters may be subject to state and IRS oversight, the banks have little information about the quality of this oversight and, in particular, the consistency of oversight across states.³⁴

³³Money transmitters typically combine, or net, multiple individual customer transactions to transfer to a bank. Therefore, a bank only sees the total netted amount and cannot see the underlying customer transactions.

³⁴In 2021, the Conference of State Bank Supervisors launched a new examination program in which money transmitters and other nonbank financial institutions operating in 40 or more states would undergo one comprehensive joint examination rather than separate examinations for each state in which they are licensed. This new examination program intends to increase harmonization and streamlining of state supervision. The Conference of State Bank Supervisors is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, American Samoa, and the U.S. Virgin Islands.

They stated that as a result, regulatory oversight of money transmitters does not factor into or substitute for their own due diligence efforts.

Heightened regulatory scrutiny and regulatory uncertainty. Banks may receive heightened regulatory scrutiny when banking customers who may be sending money to countries considered to be a higher risk for money laundering and terrorist financing, according to several representatives from banks and their associations and ACAMS members. Several bank representatives and ACAMS members said they anticipate that bank examiners, in keeping with a risk-focused supervisory approach, will focus on reviewing their compliance controls around these higher-risk accounts. Some bank representatives and an American Bankers Association representative said that uncertainty regarding regulatory expectations around the complex risk assessments and due diligence needed on these accounts has contributed to their decisions to limit or terminate them.³⁵ For example, they stated that they were uncertain about what regulators expect from them to satisfy regulatory expectations when looking to onboard a customer, because the regulatory guidance does not provide specific details to clarify how banks can ensure BSA/AML compliance for higher-risk clients. In addition, some bank representatives and ACAMS members told us some examiners have expected banks to conduct due diligence on their customers' customers (for example, the individuals that remit funds through a money transmitter), despite statements from FinCEN and the banking regulators that there is no requirement for banks to know an MSB's individual customers.³⁶

One bank representative, an American Bankers Association representative, and ACAMS members also expressed concerns that examiners may consider all money transmitters and nonprofits transferring funds to recipients in these countries to present similar higher money laundering or terrorist financing risks, irrespective of unique

³⁵In December 2019, we reported on challenges BSA/AML examiners encountered when evaluating banks' risk assessments and compliance with due diligence requirements for their money transmitter customers. For example, examiners from some discussion groups said it was unclear how much due diligence is reasonable to expect banks to conduct for their money transmitters and other MSB customers. See [GAO-20-46](#).

³⁶See Financial Crimes Enforcement Network, *FinCEN Statement on Providing Banking Services to Money Services Businesses* (Nov. 10, 2014) and Board of Governors of the Federal Reserve, Federal Deposit Insurance Corporation, Financial Crimes Enforcement Network, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision, *Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States* (Apr. 26, 2005).

factors that may mitigate these risks. They noted it was important that both banks and examiners differentiate between perceived risks associated with a particular customer or country and the actual risks.

Further, a bank representative told us banks often tailor due diligence to the specific risks of a region, which can vary greatly among and even within countries. However, a bank representative and ACAMS members said they do not know the information sources examiners use to evaluate banks' risk assessments or how they evaluate banks' due diligence for reviewing money transmitters' and nonprofits' internal controls, particularly for disbursements of remittances or humanitarian aid. Some bank representatives said that some examiners may second-guess banks' risk assessments and due diligence efforts and that banks are unsure of what they need to do to satisfy regulatory expectations.

Reputational risk. Banks also have concerns about the potential reputational consequences among the public if money transferred through their bank is used for illicit purposes, according to some bank representatives and Treasury, Federal Reserve, NCUA, and OCC staff with whom we spoke. Some bank representatives told us they are worried about negative press coverage, lawsuits, and other reputational repercussions. Our December 2019 report noted that negative publicity regarding an institution's business practices, whether true or not, may cause a decline in the customer base, costly litigation, or revenue reductions.³⁷

Decline in correspondent banking relationships. Lack of access to correspondent banking relationships continues to be a reason why some banks do not serve money transmitters and nonprofits, according to some bank representatives and an American Bankers Association representative.³⁸ According to the Bank for International Settlements,

³⁷[GAO-20-46](#).

³⁸Banks we surveyed for our March 2018 report noted reduced access to correspondent banks. Of the 193 banks that answered our survey, 30 indicated they had relied on a correspondent bank to transfer funds to our case-study countries (25 to Haiti, 16 to Liberia, 23 to Nepal, and nine to Somalia). While not specific to our case-study countries, of the 29 banks in our survey that said they had restricted the number or percentage of money transmitter accounts, eight said that they did so because of difficulty in maintaining correspondent banking relationships, while three said they did so because of the loss of a correspondent banking relationship. See [GAO-18-313](#).

between 2011 and 2018, active relationships in the global correspondent banking network declined by about 20 percent.³⁹

An American Bankers Association representative noted that even if banks are willing to provide banking services to money transmitters and nonprofits transferring funds to high-risk countries, it is difficult to move money into areas of the world where correspondent banking relationships have declined or been eliminated. He noted that some unstable areas of the world, such as Sudan or Syria, no longer have correspondent banking relationships.

Sanctions compliance. In some cases, financial institutions make decisions not to engage with entities or individuals operating in countries that are the focus of U.S. sanctions authorities because of concerns about compliance with and the complexity of sanctions, according to nonprofit representatives, an American Bankers Association representative, and Treasury staff. OFAC staff noted that in cases of comprehensive, country-specific sanctions programs, certain humanitarian transactions are exempt or excepted from U.S. sanctions, or authorized under a license. However, uncertainty with respect to the scope of existing exemptions, exceptions, and authorizations affects banks' willingness to offer financial services to nonprofits working in sanctioned jurisdictions.⁴⁰

Sanctions have become a larger driver of banking access challenges because of the increased use of primary, secondary, and sectoral

³⁹Tara Rice, Goetz von Peter, and Codruta Boar, Bank for International Settlements, *On the Global Retreat of Correspondent Banks* (Basel, Switzerland: BIS Quarterly Review, 2020), 37. This report noted that all regions have seen a decrease in correspondent banking relationships, with the rates of decline ranging from 12 percent in Northern America to 30 percent in Latin America since 2012. The International Monetary Fund has raised concerns that the withdrawal of correspondent banking relationships could disrupt financial services and cross-border flows, including remittances. International Monetary Fund, *Recent Trends in Correspondent Banking Relationships: Further Considerations* (Washington, D.C.: Apr. 16, 2017), 14.

⁴⁰For example, in our February 2021 report examining sanctions on Venezuela, Treasury staff told us that although Treasury provides licenses to authorize humanitarian-related transactions, banks may still seek to minimize risk by limiting services for any transactions involving Venezuelan entities. GAO, *Venezuela: Additional Tracking Could Aid Treasury's Efforts to Mitigate Any Adverse Impacts U.S. Sanctions Might Have on Humanitarian Assistance*, [GAO-21-239](#) (Washington, D.C.: Feb. 4, 2021).

sanctions as foreign policy tools in recent years.⁴¹ OFAC staff told us that the number of sanctions programs have increased, adding to the compliance burden on financial institutions. Further, the complexity of sanctions programs has increased because of the expanded use of secondary sanctions, sectoral sanctions, and directives that authorize non-blocking sanctions.⁴² To comply with these complex measures, financial institutions may identify the need for more sophisticated sanctions compliance programs that not all institutions are able to afford or effectively staff. For example, the June 2020 implementation of the Caesar Syria Civilian Protection Act of 2019 was the first time statutorily mandated secondary sanctions were applied in the Syria sanctions program. These mandatory secondary sanctions apply to non-U.S. persons for knowingly engaging in certain significant activities outlined in the Caesar Act. According to OFAC staff, during Treasury engagements with nonprofits that operate in Syria, the nonprofits noted that the Caesar Act further exacerbated the challenges nonprofits and other Syria stakeholders face in transferring funds to and engaging in permissible activities in Syria.⁴³

⁴¹Primary sanctions generally target entities and individuals in connection with threats to the national security, foreign policy, or economy of the United States and prohibit U.S. persons from engaging in certain dealings with those entities and individuals. Secondary sanctions target foreign persons, including financial institutions that facilitate transactions for or engage in transactions with persons already subject to sanctions. Sectoral sanctions apply to persons that operate in specific sectors of a country's economy, and U.S. persons are restricted from engaging in specific types of transactions with these entities. For example, Russian sectoral sanctions target Russia's financial, energy, technology, and defense sectors.

⁴²Secondary sanctions on foreign businesses have increased significantly, from two in 2018 to 78 in 2020. Jason Bartlett and Megan Ophel, Center for a New American Security, *Sanctions by the Numbers: U.S. Secondary Sanctions*, (Washington, D.C.: Aug. 26, 2021).

⁴³To address these concerns, OFAC released two frequently asked questions documents in April 2021 letting nongovernmental organizations and foreign financial institutions know that certain humanitarian activities are permissible under the Caesar Act. OFAC staff noted that while OFAC regularly engages in roundtables with nonprofits to provide clarity and guidance on its sanctions, banks often make their own risk-based or business decisions to not engage in business in certain jurisdictions, even when activity is authorized or permissible under U.S. sanctions regulations, due to non-sanctions concerns.

Treasury and Banking Regulators Have Taken Steps That May Mitigate Banking Access Challenges

Outreach and BSA/AML Reform Efforts May Help Address Banking Access Challenges for Money Transmitters and Nonprofits

In our prior work, we reported that FinCEN and the federal banking regulators have responded to concerns about the derisking of money transmitters and other MSBs on a national level by, among other things, issuing guidance to banks to clarify expectations for providing banking services to these customer types.⁴⁴ We also previously reported on Treasury's efforts to help address banking access challenges encountered by nonprofits by holding roundtable meetings and issuing guidance and resources for nonprofits.⁴⁵

Treasury staff we interviewed for this report noted their ongoing efforts to engage and educate the MSB and nonprofit communities on ways to minimize their terrorist financing risks. Treasury offers a regulatory helpline and periodically issues the *National Terrorist Financing Risk Assessment*, which discusses the risks posed to MSBs and the nonprofit community and areas in which these organizations may be particularly vulnerable. FDIC and Federal Reserve staff told us that in March 2018 and June 2018, they engaged in stakeholder dialogues with the World Bank and ACAMS to review developments around derisking and explore in greater depth ongoing challenges nonprofits and financial institutions

⁴⁴GAO-20-46. For example, the April 2005 interagency guidance intended to clarify BSA requirements and supervisory expectations as applied to accounts opened or maintained for MSBs, and FinCEN's 2014 statement reiterated that banks can serve the MSB industry while meeting their BSA obligations.

⁴⁵GAO-18-669. Treasury organized periodic roundtable meetings between 2013 and 2015 with the charitable sector to facilitate a dialogue on banks' expectations. These sessions brought together representatives from charities, banks, financial supervisors, and the U.S. government to discuss the factors that banks consider related to charity accounts and that examiners use in their review of banks' procedures.

face in ensuring financial services for humanitarian and development activities.⁴⁶

Beginning in April 2020, nonprofits and members of Congress expressed concerns about the flow of humanitarian assistance during the COVID-19 pandemic. In response, Treasury, FinCEN, and the banking regulators issued statements and fact sheets reinforcing the government's commitment to ensuring that humanitarian assistance continues to reach at-risk populations through legitimate and transparent channels:

- In April 2020, Treasury released a press statement encouraging banks to implement reasonable and risk-based AML measures to allow transparent, legitimate aid organizations access to financial services during the COVID-19 pandemic. The statement also reiterated Treasury's commitment to ensuring that the international flow of humanitarian aid continues through legitimate and transparent channels. Separately, OFAC issued a fact sheet clarifying that OFAC continues to maintain broad exemptions, exceptions, and authorizations across its sanctions programs to ensure that humanitarian assistance continues to reach at-risk populations. The fact sheet outlined specific guidance for OFAC-administered sanctions programs related to personal protective equipment and other COVID-19-related humanitarian assistance and trade. In May 2020, Treasury met with a number of organizations representing nonprofits to further discuss banking access difficulties during COVID-19, which jeopardized their humanitarian projects, and to receive feedback on the April 2020 press statement and fact sheet.
- In November 2020, FinCEN and the federal banking regulators issued a joint fact sheet on BSA customer due diligence requirements for charities and nonprofit organizations. The fact sheet emphasized that the U.S. government does not view the charitable sector as a whole as presenting a uniform or unacceptably high risk of being used or exploited for money laundering, terrorist financing, or sanctions violations. They issued the statement to provide clarity to banks on how to apply a risk-based approach to meeting customer due diligence requirements when providing services to nonprofits. The

⁴⁶Treasury and State officials engaged with the World Bank and ACAMS on a special initiative launched in January 2017 focused on supporting financial access for humanitarian organizations and charities. The initiative reflected broad agreement among all stakeholders—financial institutions, nonprofits, government policymakers, and regulators—on the importance of promoting critical humanitarian and development work globally. Participants explored practical solutions to help improve nonprofits' abilities to access financial services.

statement includes information banks can consider when determining the risk profiles of nonprofits, such as the purpose and nature of the nonprofit, the geographic locations served, and general information about the donor base, funding sources, beneficiaries, and criteria for disbursement of funds. Following the November 2020 joint fact sheet, Treasury's Office of Terrorist Financing and Financial Crimes hosted a meeting with nonprofits and the federal banking regulators to answer questions on the fact sheet. Treasury also hosted several meetings with nonprofits to continue discussions of nonprofits' banking access concerns and educate them on ways to minimize their money laundering and terrorist financing risks.

In addition to issuing guidance to banks and nonprofits, Treasury initiated a review of existing U.S. and multilateral financial and economic sanctions to evaluate whether they are hindering responses to the COVID-19 pandemic, including legitimate humanitarian activities, as part of the administration's efforts under the National Security Memorandum.⁴⁷ As one outcome of these efforts, in June 2021 OFAC issued three general licenses to build upon Treasury's existing authorizations for COVID-19-related transactions and activities. The new general licenses expand upon longstanding humanitarian exemptions, exceptions, and authorizations to cover additional COVID-19-related transactions and activities. Concurrent with this action, OFAC issued answers to six frequently asked questions that further clarify what the new general licenses authorize, OFAC's due diligence expectations for U.S. financial institutions facilitating activity authorized under these licenses, and other related information. In addition, Treasury staff told us that Treasury hosted a July 2021 roundtable with nonprofits at which OFAC clarified questions on the general licenses.

FinCEN and federal banking regulator staff said their broader efforts on regulatory reform and on reducing the burden associated with BSA/AML compliance may also indirectly address banking access concerns, including for money transmitters and nonprofits transferring funds to recipients in high-risk countries. In 2018, FinCEN convened a regulatory reform working group with Treasury's Office of Terrorism and Financial Intelligence and the federal banking regulators to identify ways to improve the efficiency and effectiveness of BSA/AML regulations, supervision, and examinations. The working group has issued multiple joint interagency statements since 2018 intended to, among other things, improve the

⁴⁷The White House, *National Security Memorandum on United States Global Leadership to Strengthen the International COVID-19 Response and to Advance Global Health Security and Biological Preparedness* (Washington D.C.: January 2021).

transparency of the risk-focused approach to bank examinations (see table 1).

Table 1: Selected Statements Issued by Federal Regulators on Improving the Efficiency and Effectiveness of Bank Secrecy Act Regulations and Oversight, October 2018–October 2021

Date	Action	Summary
Oct. 2018	<i>Interagency Statement on Sharing Bank Secrecy Act Resources</i>	The Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators clarified how banks may more efficiently and effectively meet Bank Secrecy Act (BSA) requirements by sharing employees or other resources in a collaborative arrangement with one or more banks.
Dec. 2018	<i>Joint Statement on Innovative Efforts to Combat Money Laundering and Terrorist Financing</i>	FinCEN and the federal banking regulators clarified their position with respect to innovative approaches to BSA/anti-money laundering (AML) compliance and encouraged banks to consider, evaluate, and, where appropriate, responsibly implement innovative approaches to meet their BSA/AML compliance obligations.
July 2019	<i>Joint Statement on Risk-Focused Bank Secrecy Act/Anti-Money Laundering Supervision</i>	FinCEN and the federal banking regulators issued the statement to improve the transparency of the risk-focused approach used for planning and performing BSA/AML examinations. They emphasized that the scope of examinations varies in response to the unique risk profile of each bank. They also clarified common practices for assessing a bank's risk profile.
Aug. 2020	<i>Joint Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements</i>	The federal banking regulators clarified that isolated or technical violations or deficiencies would generally not result in enforcement actions against banks. They also addressed how they evaluate violations of individual components of the BSA/AML compliance program.
Aug. 2020	<i>Financial Crimes Enforcement Network (FinCEN) Statement on Enforcement of the Bank Secrecy Act</i>	FinCEN clarified its approach when contemplating compliance or enforcement actions against covered financial institutions that violate the BSA. FinCEN outlined the administrative actions available to it and provided an overview of the information it analyzes in order to determine the appropriate outcome to violations of the BSA.
Aug. 2020	<i>Joint Statement on Bank Secrecy Act Due Diligence Requirements for Customers Who May Be Considered Politically Exposed Persons</i>	FinCEN and the federal banking regulators clarified that while banks must adopt appropriate risk-based procedures for conducting customer due diligence, there is no supervisory expectation for banks to have unique, additional due diligence steps for customers who are considered politically exposed persons.
Nov. 2020	<i>Joint Fact Sheet on Bank Secrecy Act Due Diligence Requirements for Charities and Non-Profit Organizations</i>	FinCEN and the federal banking regulators clarified to banks how to apply a risk-based approach to charities and other nonprofit organizations, consistent with the customer due diligence requirements in FinCEN's 2016 Customer Due Diligence Final Rule. They also reiterated that the U.S. government does not view the charitable sector as a whole as presenting a uniform or unacceptably high risk of being used or exploited for money laundering, terrorist financing, or sanctions violations.

Source: GAO analysis of federal agency statements. | GAO-22-104792

In July 2019, FinCEN and the federal banking regulators issued a joint statement clarifying that the federal banking agencies conduct risk-focused BSA/AML examinations and tailor examination plans and procedures based on the risk profile of each bank. According to previously reported comments by FinCEN and federal banking regulator staff, reminding examiners and banks of the risk-focused approach would

help dispel the perception that banks will be criticized for taking on certain higher-risk customers when they are properly managing the risk.⁴⁸

Similarly, federal banking regulator and FinCEN staff previously said that the working group's joint statement encouraging banks to use innovative approaches when carrying out BSA/AML due diligence could help address derisking concerns by reducing the costs of implementing the risk-management practices that may be necessary to provide banking services to some higher-risk customers.⁴⁹ Federal Reserve and OCC staff also noted that implementation of the AML Act is intended to further enhance these efforts. The AML Act reinforces the application of the risk-based approach, establishes a subcommittee on innovation and technology to the Bank Secrecy Act Advisory Group, and requires federal financial regulators to appoint BSA innovation officers.⁵⁰

Representatives of bank associations, nonprofit associations, and ACAMS members we interviewed were supportive of the joint statements—particularly those emphasizing that nonprofits are not universally high risk and reiterating the risk-based approach to BSA/AML compliance. A representative from the American Bankers Association said the November 2020 joint fact sheet on charities was especially helpful because it provided more clarity to banks on the risks associated with banking nonprofits and the regulatory expectations for conducting due diligence on them. A representative from the Money Services Round Table told us some of its members were supportive of the statements emphasizing that money transmitters are not universally high risk.

However, representatives of bank, nonprofit, and money transmitter associations and ACAMS members said they do not know yet whether these recent efforts are having a discernable effect on improving banking access for money transmitters and nonprofits. In particular, they said that while the joint statements appropriately emphasize a risk-focused

⁴⁸[GAO-20-46](#).

⁴⁹[GAO-20-46](#). FinCEN staff that we spoke to for this report noted that FinCEN's Innovation Hours Program could increase financial access by making it easier for banks to conduct due diligence. This program brings in financial institutions, regulatory and financial technology firms, and other stakeholders on a monthly basis to share information with FinCEN staff about innovative approaches to evaluate, maintain, and report information under the BSA.

⁵⁰The Bank Secrecy Act Advisory Group, which FinCEN chairs, advises Treasury on the operations of the BSA and includes representatives of federal regulatory and law enforcement agencies, Treasury, and various industries.

supervisory approach, they remain concerned that examination practices do not yet reflect the guidance. We discuss updates to the BSA/AML examination manual in the next section of this report.

Efforts to Reinforce BSA/AML Examiners' Risk-Focused Approach May Also Help Address Banking Access Challenges

Federal banking regulators noted that as FFIEC members they are engaged in a comprehensive review of the FFIEC BSA/AML examination manual and issued several updates to the manual during 2020 and 2021. These updates are intended to further improve the transparency of the examination process and support risk-focused examination work.⁵¹ According to FDIC staff, the clearer the BSA/AML examination manual is to examiners with regard to the relevant laws and regulations, the better examiners are able to review compliance with those laws and regulations. They said that the updates adjusted language to clarify that the examination manual itself does not establish requirements for banks, as such requirements are found in statutes and regulations.

The BSA/AML examination manual updates reflect several of the working group's joint statements issued to date. For example, the April 2020 update reflects the July 2019 joint statement by emphasizing the need for examiners to evaluate a bank's BSA/AML compliance program based on its risk profile for money laundering, terrorist financing, and other illicit financial activities. It also provides instructions to examiners for assessing the adequacy of a bank's BSA/AML risk assessment processes. The April 2020 update noted that when a bank has established an appropriate BSA/AML risk assessment process and has followed existing policies, procedures, and processes, examiners should not criticize the bank for individual risk or process decisions unless those decisions impact the adequacy of some aspect of the bank's BSA/AML compliance program or the bank's compliance with BSA regulatory requirements.

In addition, a November 2021 update to the BSA/AML examination manual incorporated key elements of the November 2020 joint fact sheet

⁵¹The revisions incorporate regulatory changes and are intended to ensure language clearly distinguishes between mandatory regulatory requirements and supervisory expectations set forth in guidance. See Federal Financial Institutions Examination Council press releases, *Federal and State Regulators Release Updates to the BSA/AML Examination Manual* (Washington, D.C.: Apr. 15, 2020, Feb. 25, 2021, June 21, 2021, and Dec. 1, 2021).

on charities. For example, it reiterates the importance of financial services access for legitimate nonprofits and that the U.S. government does not view the charitable sector as a whole as presenting a uniform or unacceptably high risk of being used or exploited for money laundering or terrorist financing or sanctions violations. It further states that the potential risk to the bank depends on the facts and circumstances specific to the customer relationship, such as transaction volume, type of activity, and geographic locations.

A representative from the American Bankers Association said that though it is too early to tell, it is expected that as the April 2020 and February 2021 updates work their way into the system, there should be different approaches to examinations.⁵² These updates could help address stakeholders' concerns around examiners' approaches to conducting bank BSA/AML compliance examinations. Federal banking regulator staff noted that they have provided training to examiners on some of these updates.⁵³ In addition, they have made examiners aware of the November 2020 guidance from the joint fact sheet through nationwide calls with examiners and BSA specialists, and they plan to provide training to examiners on the November 2021 BSA/AML examination manual updates.

Federal banking regulators have also taken steps to respond to concerns we previously raised regarding BSA/AML examiner practices for evaluating banks' compliance controls around money transmitter accounts. In December 2019, we reported on challenges examiners encountered when assessing banks' compliance with due diligence requirements for their money transmitter customers.⁵⁴ The BSA/AML examination manual provides procedures and guidance for examiners when assessing banks' compliance controls for MSB customers, including money transmitters. The procedures direct examiners to determine

⁵²Because FFIEC released the updated BSA/AML examination manual section on nonprofits on December 1, 2021, we did not have the opportunity to ask banks and their associations about their views on these updates.

⁵³For example, the federal banking regulators and FinCEN, through FFIEC, held trainings for examiners in April 2020 to provide updates on changes in supervisory guidance or regulations and information on current issues in the financial industry. They also held trainings for banks in June 2020, covering the same topics.

⁵⁴[GAO-20-46](#). For this work, we conducted eight discussion groups with BSA/AML examiners from the federal banking regulators (six to 14 examiners in each group) to understand how they assess BSA/AML compliance controls around money transmitter customers.

whether the banks' policies, procedures, and processes to assess risks posed by MSB customers allow the banks to effectively identify higher-risk accounts and determine the necessary amount of further due diligence.

We also reported in December 2019 that examiners from many discussion groups told us they believed these procedures and guidance were sufficient. However, examiners from some discussion groups said it was unclear how much due diligence was reasonable to expect banks to conduct for their money transmitters and other MSB customers. For example, some examiners noted that although banks are responsible for understanding the kinds of transactions that flow through an MSB, to some extent banks do not have visibility into these individual transactions, as they are aggregated before flowing into the account at the bank. In addition, examiners in some discussion groups said it can be difficult to evaluate banks' risk assessments, including processes for identifying higher-risk customers that require additional due diligence. One examiner explained that it was unclear from the examination procedures how to determine whether banks' risk assessment processes for identifying higher-risk customers were adequate.

To address the challenges examiners identified, we recommended that federal banking regulators take steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts.⁵⁵ In June and July 2020, federal banking regulators—through FFIEC—took steps to respond to our recommendation by delivering targeted training to examiners. This training was intended to improve examiners' ability to evaluate the risks posed by money transmitters and other MSBs to the banking system, including how to compare risks among financial institutions and how to recognize red flags and conduct appropriate transaction testing. The Federal Reserve and FDIC also delivered training in September 2020 and July 2021, respectively, that emphasized a risk-focused approach to examining money transmitter and other MSB customer relationships. The training also addressed examiner practices for evaluating the effectiveness of banks' BSA/AML compliance controls with respect to

⁵⁵We noted that steps the federal banking regulators could take to address our recommendation might include providing updates to examination procedures, examiner training, or a combination of methods.

banking MSBs and assessing the sufficiency of banks' customer due diligence and enhanced due diligence efforts.⁵⁶

Staff from OCC told us implementation of the AML Act could also further regulators' efforts to ensure examiner practices are consistent with the risk-focused examination procedures. The act requires examiners to attend annual training about AML and the countering of terrorist financing and specifies that this training should address derisking and its effects on the provision of financial services.

Views Varied on Proposals to Address Banking Access Challenges

Representatives of banks, money transmitters, nonprofits, Treasury, and federal banking regulators with whom we spoke expressed varying views on certain commonly cited proposals intended to address challenges money transmitters and nonprofits may face in accessing banking services. In general, these parties reported the use of centralized sources of information (known as know-your-customer (KYC) utilities) on money transmitters or nonprofits and an enhanced federal role in facilitating certain humanitarian fund transfers as potentially effective tools for increasing banking access. However, they viewed proposals to help money transmitters and nonprofits improve their risk management as important but less likely to improve banking access. Finally, they identified several major limitations to a proposal to offer incentives to banks. (See app. I for a description of how we selected the proposals we examined.)

⁵⁶As of December 2021, the Federal Reserve and FDIC had fully implemented our recommendation and OCC and NCUA had not, because we determined that the FFIEC-sponsored training alone was not sufficient to fully address our recommendation. While the FFIEC-sponsored training included detailed coverage of MSBs and how to spot potential BSA/AML compliance issues with them as part of transaction testing during bank examinations, it did not focus on evaluating banks' BSA/AML compliance controls with respect to banking MSBs or assessing the sufficiency of banks' customer due diligence and enhanced due diligence efforts.

Certain Know-Your-Customer Utilities Were Viewed as Potentially Effective Tools for Addressing Banking Access Challenges

One commonly cited proposal for improving banking access for money transmitters and nonprofits is the broad use of KYC utilities—centralized repositories for the customer information banks typically require for their customer identification and due diligence procedures.⁵⁷ Such utilities can range from basic platforms that support banks' onboarding processes by collecting and maintaining customers' KYC information (for example, state licenses or documentation of internal controls) to more comprehensive utilities that monitor and analyze transaction data. Several private companies and some public-private partnerships have developed KYC utilities in recent years.

Representatives of banks, money transmitters, and nonprofits (who we collectively refer to as stakeholders) and OCC staff cited two key benefits to KYC utilities:

- **Reduced compliance costs.** A centralized KYC utility that contains information in a standard format could reduce the time and resources banks spend in collecting KYC information from customers. In general, bank representatives we interviewed said the extent to which a utility could lower their compliance costs would depend on the utility's content and level of regulator involvement, as discussed below. A utility could also allow money transmitters and nonprofits to submit their general information only once, as opposed to submitting it to each bank with whom they do business.
- **Enhanced BSA/AML compliance.** OCC staff said a standardized KYC utility might enhance banks' BSA/AML compliance quality. In addition, a nonprofit representative said that by collecting information on nonprofits' operations and risk management procedures, a KYC utility could increase understanding of different nonprofit business models and functions and provide a baseline level of confidence for banks.

⁵⁷According to ACAMS, KYC refers to AML policies and procedures used to determine the identity of a customer and the type of activity that is normal and expected, and to detect activity that is unusual for a particular customer.

Examples of Transaction-Monitoring and Analysis Utilities

Existing transaction-monitoring and analysis utilities could provide insights for entities considering the establishment of a new utility.

- **The Transaction Record Analysis Center (TRAC)** was created in 2014 as a result of a settlement agreement amendment between the Arizona Attorney General and Western Union. TRAC now operates a centralized searchable database of subpoenaed money transfer transaction data from several global money services businesses. The transaction data reflect person-to-person money transfers (no commercial transactions) of at least \$500, primarily sent from or paid in U.S. Southwest border states and Mexico. According to TRAC, the subset of transactions that TRAC collects is the most likely to involve criminal activity. The TRAC data system is accessible to TRAC analysts and law enforcement users, who can view and analyze data across multiple money transmitters to help identify suspicious or illegal activity. Banks do not have access to the data.
- In 2020, the five largest banks in the Netherlands established Transaction Monitoring Netherlands (TMNL), which collects and analyzes encrypted transaction data from the participating banks. TMNL can issue multibank alerts when its analysts detect an unusual transaction or series of transfers indicative of money laundering or other crimes. The program currently focuses on participating banks' corporate customers. The Financial Intelligence Unit—Netherlands and other relevant government agencies are also involved in the initiative.

Source: GAO analysis of TRAC, TMNL, and Association of Certified Anti-Money Laundering Specialists publications. | GAO-22-104792

However, stakeholders and Treasury and federal banking regulator staff also noted potential limitations of a KYC utility:

- **Limited ability to address transparency issues.** Bank representatives largely agreed that a KYC utility would not solve key due diligence challenges around transparency—that is, their inability to verify what happens to funds once they are transferred to countries that lack sufficient financial regulatory systems or AML and countering the financing of terrorism (CFT) regimes. Treasury and NCUA staff also said banks would still want to conduct their own due diligence on customers who were in a KYC utility to reduce the bank's reputational risk.
- **Cost.** Some bank representatives and Treasury, FDIC, and OCC staff said creating and maintaining a utility would be costly. Treasury staff added that any time or resource savings a utility produced likely would not compensate for the fact that money transmitters and nonprofits are generally unprofitable for banks.
- **Privacy and data security concerns.** Some nonprofit representatives and federal banking regulator staff noted potential challenges around privacy and protection of information—including personally identifiable information—in a KYC utility. For instance, FDIC staff said federal and state privacy laws may require disclosing to consumers the collection or sharing of their information, and compliance with U.S. or foreign privacy laws may lessen the utility's effectiveness.
- **Potential exclusivity.** Two nonprofit representatives said a KYC utility could result in a list of organizations approved for bank accounts, putting at a disadvantage nonprofits that choose not to participate, such as smaller organizations or those concerned about privacy.

Stakeholders and federal banking regulator staff also discussed operational considerations that would affect the viability of a KYC utility:⁵⁸

- **Type and amount of content.** Stakeholders stated that decisions on content would be crucial to the success of a KYC utility. As noted earlier, bank representatives we spoke with cited human capital, which is necessary for risk analysis, as the most resource-intensive component of their due diligence programs. By contrast, collection of

⁵⁸Many of the proposals we discussed with stakeholders, Treasury, and the federal banking regulators could require an act of Congress and accompanying regulations to implement. We did not assess the need for such actions.

customer documents can largely be accomplished through existing technology tools. These representatives said that with regard to money transmitters, a utility that monitors and analyzes transaction-level information would offer the most value (see sidebar for examples of such utilities). Bank and money transmitter representatives generally told us a transaction-monitoring and analysis utility would provide visibility into transaction-level risks, such as customer attempts at structuring (breaking up transactions to evade BSA reporting and recordkeeping requirements).

Some money transmitter representatives said a transaction-monitoring and analysis utility could also enhance BSA/AML investigations for FinCEN and other agencies and assure banks that risks associated with money transmitters' underlying transactions are being identified and assessed. With regard to nonprofits, some bank representatives told us a utility that analyzes nonprofits' risk management programs would be more useful than one that simply collects nonprofits' KYC information.

Stakeholders also discussed the importance of determining the appropriate amount of content in a utility. Several bank representatives stated a preference that the utility include all information needed for due diligence. On the other hand, they noted the variation within the money transmitter and nonprofit industries—for example, some money transmitters are agent-based, while others conduct business primarily online, and they differ in the geographic regions they serve. As a result, the information collected by a KYC utility could vary substantially by customer type and risk profile to serve banks' risk-based due diligence needs, which could add cost and complexity to the utility. In addition, for a money transmitter transaction-monitoring and analysis utility, it would be important to balance the amount of data that would allow for meaningful analysis against technological or cost constraints.

- **Level of regulator involvement.** All of the bank representatives we interviewed told us some level of buy-in by federal regulators would be a key factor in any utility's usefulness because it would increase the likelihood that the information in the utility could be relied on for regulatory compliance purposes. Without such buy-in, some representatives noted, the utility would offer little value because banks would need to continue conducting their own due diligence to satisfy regulatory expectations.

Regulatory involvement could range from regulators' approval of a privately administered utility (for example, a third-party provider paid by a consortium of banks or money transmitters) to the creation and

maintenance of a utility by a government-sponsored entity (which could include a public-private partnership). Some of the bank representatives we interviewed told us they thought a government-sponsored entity would offer higher quality information than a privately managed utility and prevent duplicative due diligence efforts.

However, OCC staff and one nonprofit representative stated that some money transmitters and nonprofits might be hesitant to provide their information to a government-sponsored utility for fear it would be misused. In addition, Treasury staff stated it would be difficult for regulators to provide assurance about any utility's reliability. They also said it would be difficult to justify providing special treatment for certain industries and not others.

Several Stakeholders Supported an Enhanced Federal Role in Facilitating Emergency Humanitarian Fund Transfers

Bank and nonprofit representatives and some federal banking regulator staff we interviewed noted potential benefits of the government assuming a certain level of risk to effect emergency humanitarian fund transfers and meet policy goals in some high-risk countries, such as by establishing a U.S. intermediary with a physical presence in a particular country to handle final distribution of funds. While many countries could be considered high-risk for money laundering or terrorist financing, the discussion of this proposal focused on countries where such risks are particularly high or where sanctions are prevalent. As noted earlier, these conditions can make it difficult or impossible for banks to conduct the due diligence necessary to determine that funds are not being used for illicit purposes.⁵⁹ In some cases, these countries may have very limited correspondent banking relationships. The potential benefits of

⁵⁹Some literature we reviewed mentioned the potential for distributed ledger technology to address identification challenges and other banking access issues. Distributed ledger technology allows for a secure way of conducting and recording transfers of digital assets without the need for a central authority. According to the Financial Action Task Force, use of this technology, which is mostly in the development phase, could improve traceability of transactions on a cross-border basis or even global scale, potentially making identity verification easier. It could also speed up the customer due diligence process, as consumers could authenticate themselves and be automatically approved or denied through smart contracts that verify the data. However, the Financial Action Task Force also noted that the decentralized nature of distributed ledger technology poses challenges with regard to regulation and supervision, including from an AML/CFT perspective. See Financial Action Task Force, *Opportunities and Challenges of New Technologies for AML/CFT* (Paris, France: July 2021).

government facilitation of certain emergency transfers include the following:

- **Reduced risks and costs for banks.** As stated earlier, much of banks' hesitancy to serve nonprofits that transfer funds to recipients in high-risk countries stems from the lack of visibility in the destination countries and the associated high costs of due diligence. Several bank and nonprofit representatives and FDIC and NCUA staff said government facilitation of emergency humanitarian fund transfers could reduce banks' compliance risks because, according to FDIC staff, the government agencies involved would have access to U.S. government resources that could help them vet whether the payments were being sent to legitimate parties. In effect, such facilitation would shift to the government some of the risk that banks consider unmanageable.
- **Expedited transactions.** Some bank and nonprofit representatives said the time banks take to conduct due diligence on transfers to high-risk countries makes it difficult for nonprofits to respond to emergencies in a timely manner. They said government facilitation of the transaction on the international side might speed up the transfer process because banks would be responsible for due diligence only on the domestic side, which they noted is generally more manageable.
- **Reduced use of informal channels.** A nonprofit representative stated that because nonprofits sometimes use informal transfer mechanisms—such as cash transfers or the hawala system—in the absence of banking services, government intervention would increase the safety and transparency of those transfers to high-risk countries.

However, some stakeholders and Treasury staff cited potential limitations of this type of government involvement:

- **Risk of fund misdirection or misuse.** According to Treasury staff, it might be difficult even for a government entity to ensure funds it helped transfer were not used for illicit purposes, particularly if such facilitation resulted in a large number of transfers to a given country. Some bank representatives also noted that in certain high-risk countries, the central banks or other entities the U.S. government may partner with to complete transfers are not immune to corruption.
- **Unintended consequences.** Treasury staff said government facilitation of transfers to high-risk countries could create market distortions by making it less expensive to transfer funds to recipients in high-risk countries than in low-risk countries. They also said it could

reduce the destination countries' motivations to lower their risk levels through fundamental government reforms.⁶⁰ However, Treasury has recently engaged in efforts—beyond issuing exemptions, exceptions, and authorizations pertaining to humanitarian assistance and trade across its U.S. sanctions programs—to support banks that are willing to conduct enhanced due diligence to transfer remittances and humanitarian goods to particularly high-risk countries (see text box).

⁶⁰Treasury staff told us that Treasury continues to engage in AML/CFT reform and capacity building in consultation with the Department of State and third-party assistance providers for conflict zones and other high-risk countries, such as the Democratic Republic of the Congo, Liberia, and Somalia.

Department of the Treasury's Recent Efforts to Promote Banking Access to High-Risk Countries

Treasury has engaged in at least two recent efforts related to banking access for entities transferring funds to recipients in high-risk countries for which concerns about money laundering, terrorist financing, and sanctions have effectively precluded U.S. banking involvement.

Somali Remittances Feasibility Study. In response to a mandate in 2017's Countering America's Adversaries through Sanctions Act, Treasury's Office of Terrorist Financing and Financial Crime collaborated with the Financial Crimes Enforcement Network and the federal banking regulators on a study of ways to enhance financial inclusion for money services businesses (MSB), particularly money transmitters, serving Somalia. (Pub. L. No. 115-44, § 271(a)(1), 131 Stat. 886, 936 (2017).) Somalia, at the time of the study, presented significant Bank Secrecy Act and sanctions compliance challenges for U.S. banks, including terrorist financing risk and weaknesses in the Somali regime for countering money laundering and the financing of terrorism.

Treasury assessed the feasibility of a pilot program in which the federal banking regulators would provide technical assistance to financial institutions willing to serve MSBs that transferred funds to Somalia. Treasury found the MSBs it interviewed were willing to participate in such a pilot program, which included enhanced compliance requirements. However, the financial institutions in the study were generally unwilling to consider participating without a guaranteed safe harbor. Some institutions were unwilling to engage regardless of a safe harbor because of the inherent risks of sending funds to Somalia. The financial institutions cited the risks on the Somali side as their key reason for not wanting to participate. In addition, the smaller financial institutions in the study said they feared losing their correspondent banking relationships as a result of doing business with MSBs serving Somalia.

Swiss Humanitarian Trade Arrangement. In 2020, Treasury's Office of Foreign Assets Control and the Swiss government finalized the Swiss Humanitarian Trade Arrangement, which created a financial channel for permissible humanitarian trade to Iran. The channel serves companies and financial institutions with a presence in Switzerland.

The trade arrangement is the first operational channel established under an October 2019 framework by Treasury and the Department of State to facilitate humanitarian trade (i.e., commercial exports of agricultural commodities, food, medicine, and medical devices) with Iran. (See Department of the Treasury, *Financial Channels to Facilitate Humanitarian Trade with Iran and Related Due Diligence and Reporting Expectations* (Washington, D.C.: October 2019).) The framework requires that participating governments and financial institutions commit to conducting enhanced due diligence to mitigate the higher risks associated with transactions involving Iran. It enables foreign governments and foreign financial institutions to seek written confirmation from Treasury that the proposed financial channel will not be exposed to U.S. sanctions in exchange for those governments and financial institutions committing to provide to Treasury robust information on the use of this mechanism.

Source: GAO analysis of Treasury publications and interviews with Treasury officials. | GAO-22-104792.

Stakeholders and some federal banking regulator staff discussed a few considerations related to how government facilitation of emergency humanitarian fund transfers would work:

- **Structure and leadership.** Some bank and nonprofit representatives suggested that the Federal Reserve, which has relationships with other countries' central banks, could facilitate transactions, such as by establishing a settlement account with the central bank or another appropriate entity in a given country. Treasury staff noted, however, that such arrangements could be interpreted as the U.S. government supporting the governments that are responsible for causing the humanitarian crises. FDIC staff and a nonprofit representative suggested that U.S. government agencies, such as those with missions related to humanitarian assistance, could help ensure funds reach their intended beneficiaries.
- **Participants.** One nonprofit representative stated that the relative severity and duration of the humanitarian crisis could factor into whether a country could benefit from such a program, and another added that the government should only intervene in situations where the market fails to act in a timely manner.

Codes of Conduct and Educational Initiatives Were Viewed as Important, but Unlikely to Significantly Improve Banking Access

Codes of conduct, best practices, and educational initiatives could lead to improvements to money transmitters' and nonprofits' risk management with regard to AML/CFT and sanctions issues, according to stakeholders and federal regulators. However, in general, these measures were viewed as having limited potential to significantly address money transmitters' and nonprofits' banking access challenges.

Codes of Conduct or Best Practices

Some stakeholders have proposed that industry organizations or governments develop a code of conduct or best practices to which money transmitters and nonprofits that transfer funds to recipients in high-risk countries would be asked to adhere. Such initiatives could help organizations—particularly nonprofits that are newer or less sophisticated—strengthen their risk management programs, according to some bank representatives and OCC staff. Similarly, FDIC staff said codes of conduct or best practices may be a positive step in establishing standards. Several money transmitter and nonprofit representatives suggested that codes of conduct or best practices could also increase assurance for banks with regard to serving these types of customers.

However, the ability of codes of conduct or best practices to improve banking access could be limited because their development does not guarantee that organizations are abiding by them, according to some of the bank representatives and Treasury and FDIC staff with whom we spoke. Bank representatives also stated that because money transmitters have BSA/AML compliance requirements, these approaches would not add much value to what they should already be doing. In addition, OCC staff stated that codes of conduct or best practices do not address the fundamental issue of weak or nonexistent controls in certain high-risk countries that result in the misdirection or misuse of funds.

Stakeholders and Treasury and federal banking regulator staff discussed a number of considerations related to using codes of conduct or best practices to increase banking access:

- **Demonstration of compliance.** Some stakeholders and federal banking regulator staff noted options for money transmitters and nonprofits to demonstrate compliance with codes of conduct, best practices, or overall BSA/AML requirements. FDIC staff suggested that signed attestations that the money transmitter or nonprofit was following codes of conduct or best practices might provide some assurance to banks. Similarly, some bank representatives proposed that money transmitters or nonprofits could demonstrate compliance via attestations or certifications. Money transmitter representatives suggested that a system allowing for the optional certification of the entities conducting MSBs' BSA/AML compliance reviews (for example, a rating agency for compliance reviewers) could increase banks' comfort in serving money transmitters.⁶¹ A nonprofit representative also suggested certification of nonprofits' risk management programs, but said it could be difficult for nonprofits with fewer resources to pay for this service. Some bank representatives also said ratings could provide a useful, standardized assessment of money transmitters' or nonprofits' capacity to manage money laundering and terrorist financing risks.
- **Leadership.** Some money transmitter and nonprofit representatives and Treasury and banking regulator staff said that private organizations, such as money transmitter and nonprofit associations

⁶¹BSA regulations require MSBs to have an independent audit function to test their BSA/AML programs, but FinCEN has stated that the auditor need not be a certified public accountant or third-party consultant. An officer, employee, or group of employees may conduct the review, so long as the reviewer is not the designated compliance officer and does not report directly to the compliance officer.

or a consortium of banks, typically lead these initiatives. For example, the MSB industry recently drafted a set of best practices for MSBs' AML and CFT compliance programs. FDIC staff also stated that banks might be open to providing suggestions or feedback on these initiatives.

- **Level of Treasury or federal banking regulator support.** All of the money transmitter representatives told us that without some level of government endorsement of MSB industry best practices (such as by FinCEN or the federal banking regulators), they may not provide much assurance to banks. Similarly, a bank representative said that all relevant parties, including regulators, should agree on the best practices or standards.
- **Content.** With regard to BSA/AML-related content, FDIC staff said codes of conduct or best practices should address, at a minimum, compliance with AML, CFT, and sanctions regimes of relevant jurisdictions. Some money transmitter representatives suggested that best practices could be customized by factors such as the geographic locations where an organization transfers funds or the volume and purpose of remittance activity. However, given the variation in each industry, customization could be a challenge.

Educational Initiatives

Some stakeholders have proposed initiatives to educate money transmitters on their BSA/AML requirements or to educate nonprofits on methods to minimize their risk of contributing to money laundering or terrorist financing. Some bank and nonprofit representatives told us that educational initiatives could improve AML/CFT risk management for nonprofits, especially smaller or newer organizations. These representatives noted that banks tend to favor larger nonprofits with robust risk management programs, but education could help smaller nonprofits—which may lack a baseline understanding of AML/CFT issues—to strengthen their controls and improve their risk profiles with banks. However, NCUA staff stated that education is only helpful insofar as organizations keep up with it. In addition, we note that education would likely not lower banks' BSA/AML compliance costs or address their concerns about what happens to funds once they reach their destination country.

In contrast to educational initiatives for nonprofits, some bank and money transmitter representatives thought educational initiatives for money transmitters were unnecessary and redundant. They stated that money

transmitters' BSA/AML requirements are already clearly established in state and federal regulations and guidance, and industry groups already provide some training. FDIC staff said education for money transmitters on their BSA/AML requirements and the risks in the countries to which they transfer funds could strengthen their compliance programs, but they also noted the widespread and diverse nature of the money transmitter industry and said it could be difficult to reach everyone with the necessary education.

Use of Incentives for Banks to Serve Money Transmitters and Nonprofits Was Viewed as Having Major Limitations

One option for encouraging banks to serve money transmitters and nonprofits transferring funds to recipients in high-risk countries is to provide the banks with financial or reputational incentives. For example, federal law could offer such banks tax credits, or financial regulators could provide banks with Community Reinvestment Act (CRA) examination credit for serving these customers.⁶²

Some bank and nonprofit representatives and OCC staff stated that financial incentives, such as tax credits, could offset some of banks' compliance costs for serving money transmitters or nonprofits. In addition, one bank representative said recognition for taking on the increased risks of banking money transmitters or nonprofits could help balance out the examiner scrutiny banks typically receive when serving these types of customers. A money transmitter representative added that incentives would signal federal banking regulators' support for serving these customers in accordance with a risk-based approach to BSA/AML compliance.

Bank representatives and staff from Treasury and the federal banking regulators noted several potential limitations of financial or reputational incentives:

- **Unintended consequences.** Some bank representatives and FDIC and NCUA staff noted that significant incentives could encourage

⁶²The CRA addresses how banks meet the credit needs of the areas they serve, particularly in low- and moderate-income neighborhoods. The Federal Reserve, FDIC, and OCC implement the act and evaluate where banks engage in qualifying activities (such as lending) that occur within a designated assessment area. These evaluations are then used to issue each bank a performance rating, which must be taken into account when banks apply for charters, branches, mergers, and acquisitions.

banks without strong BSA/AML programs to start banking money transmitters. This could lead to violations of BSA requirements, unintended support of money laundering or terrorist financing, government fines, and a broad shift back to derisking. OCC staff stated that if incentives were to lead some banks to begin serving customers that send funds to recipients in high-risk countries, OCC's primary focus would be on whether the bank could do so in a safe and sound manner and in compliance with applicable laws and regulations. In addition, Treasury staff stated that incentivizing transfers to high-risk countries could create market distortions and reduce those countries' motivation to lower their risk levels through fundamental reforms to improve their compliance with international AML/CFT standards.

- **Failure to lower overall costs.** Another bank representative stated that incentives would simply transfer compliance costs to taxpayers when the real goal should be to lower compliance costs overall, such as by clarifying regulatory expectations for banking money transmitters and nonprofits.
- **Equity issues.** One bank representative noted that incentives for banks that serve money transmitters ignore the substantial BSA/AML compliance costs money transmitters themselves incur to serve customers transferring funds to recipients in high-risk countries. In addition, NCUA staff stated that credit unions were not likely to benefit from financial or reputational incentives because they are already tax-exempt and are not subject to the CRA or similar laws. Finally, Treasury staff stated that programs to incentivize banking access for money transmitters and nonprofits would give those customers an advantage over other industries that may struggle to obtain banking access.

Stakeholders and federal banking regulator staff discussed several factors the government would have to consider to operationalize bank incentives:

- **Size and structure.** A bank representative noted that the amount of a tax credit would have to be quite high to offset banks' compliance costs for serving customers that transfer funds to recipients in high-risk countries. A money transmitter representative suggested that CRA credit for banks that directly provide low-cost remittance services could be extended to banks that serve money transmitters, which may

employ economies of scale to serve customers at a lower cost than banks.⁶³

- **Qualifying customers or activities.** Some money transmitter representatives stated that incentives should target banking access for money transmitters offering person-to-person transactions, which constitute the bulk of all transfers and often address basic humanitarian needs. Some nonprofit representatives said regulators would need to consider how to weigh factors such as the extent to which a nonprofit has experienced banking access challenges in the past and the extent to which it serves certain high-risk countries.

Ongoing Dialogue May Help Clarify Perspectives and Potential Solutions to Banking Access Challenges

Bank, money transmitter, and nonprofit stakeholders stressed the importance of communication to mitigating the banking access challenges that money transmitters and nonprofits face. Ongoing communication between bank staff and their nonprofit customers is crucial to improving transparency and addressing any issues as they arise, according to one bank representative and a nonprofit representative. In addition, some nonprofit representatives said it would be helpful to receive more feedback from banks about the reasons for denied or delayed transactions. They said this information could help them tailor their risk management activities to account for banks' concerns. They also noted the importance of educating banks on customers' various business models and operating procedures and the different levels of money laundering or terrorist financing risk they may present. Finally, a nonprofit representative and representatives of nonprofit associations discussed the value of multisector dialogues with active engagement from federal agencies.

As noted earlier, the National Defense Authorization Act for Fiscal Year 2021 includes a provision for Treasury to develop a strategy to reduce derisking. The provision also calls for consultation with federal and state banking regulators, other public-sector stakeholders (which could include

⁶³12 C.F.R. § 228.24. Although regulators' examination for bank compliance with the CRA does not explicitly include a review for remittances, OCC has stated that reasonably priced international remittance services that improve low- to moderate-income individuals' access to financial services may be a community development service that qualifies for CRA credit. In addition, the Federal Reserve has issued an advance notice of proposed rulemaking that requested comment on making this more explicit. Community Reinvestment Act, 85 Fed. Reg. 66410 (Oct. 19, 2020).

federal agencies with a potential role in the proposals discussed here), and relevant private-sector stakeholders, such as banks, money transmitters, nonprofits, and the associations that represent them. This consultation, in addition to Treasury and the federal banking regulators' other outreach to industry stakeholders, may offer additional opportunities to clarify perspectives and further explore solutions to banking access issues.

Agency Comments

We provided a draft of this report to the Federal Reserve, FDIC, NCUA, OCC, and Treasury for review and comment. In its comment letter (reproduced in appendix II), NCUA stated that it will continue to maintain a dialogue with industry segments and provide guidance and training to industry and staff as necessary. The five agencies also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Acting Comptroller of the Currency, the Chairman of the National Credit Union Administration, and the Secretary of the Treasury. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or clementsm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs are listed on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Michael E. Clements
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives in the report were to describe (1) banking access challenges reported by money transmitters and nonprofits transferring funds to recipients in high-risk countries and the drivers of these challenges; (2) actions the Department of the Treasury and the federal banking regulators have recently taken or plan to take to address these challenges; and (3) stakeholder views on proposals intended to increase banks' willingness to serve money transmitters and nonprofits transferring funds to recipients in high-risk countries.

For the purposes of this report, unless otherwise indicated, we use the term "banks" generally to refer to both banks and credit unions and "federal banking regulators" to include the National Credit Union Administration (NCUA) in addition to the Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System (Federal Reserve), and the Office of the Comptroller of the Currency (OCC).

To address our first objective, we reviewed prior GAO work that identified banking access challenges related to derisking and the drivers of these challenges.¹ To identify any changes or developments to banking access challenges or their drivers since January 2018—when the period covered by much of our prior audit work ended—we conducted a literature review.

¹The William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 defines derisking as actions taken by a financial institution to terminate, fail to initiate, or restrict a business relationship with a customer, or a category of customers, rather than manage the risk associated with that relationship consistent with risk-based supervisory or regulatory requirements, due to drivers such as profitability, reputational risk, lower risk appetites of banks, regulatory burdens or unclear expectations, and sanctions regimes. Pub. L. No. 116-283, § 6215(b), 134 Stat. 3388, 4580-81 (2020). In prior work, we have defined derisking as the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering. See GAO, *Bank Secrecy Act: Examiners Need More Information on How to Assess Banks' Compliance Controls for Money Transmitter Accounts*, [GAO-20-46](#) (Washington, D.C.: Dec. 3, 2019); *Humanitarian Assistance: USAID Should Improve Information Collection and Communication to Help Mitigate Implementers' Banking Challenges*, [GAO-18-669](#) (Washington, D.C.: Sept. 20, 2018); *Remittances to Fragile Countries: Treasury Should Assess Risks from Shifts to Non-Banking Channels*, [GAO-18-313](#) (Washington, D.C.: Mar. 8, 2018); and *Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Review*, [GAO-18-263](#) (Washington, D.C.: Feb. 26, 2018).

We conducted searches of various databases (e.g., EBSCO, ProQuest, Google Scholar, and WorldCat) and websites to identify and review relevant studies and articles prepared by academics, international organizations, industry associations, and think tanks from January 2018 through March 2021 that discussed banking access challenges related to derisking, including any challenges or drivers not discussed in prior GAO reports. We identified additional materials through citations in literature we reviewed.

We also conducted discussion groups on banking access challenges and drivers with representatives from a nonrandom sample of banks, money transmitters, and nonprofits. In total, we held five virtual discussion groups—two groups with two banks each, one group with five money transmitters, and two groups with two nonprofits each. The information collected from these organizations cannot be generalized to the larger populations of banks, money transmitters, or nonprofits.

To select the participants of these discussion groups, we asked the American Bankers Association, the Money Services Business Association, and InterAction—which represent bankers, money services businesses (including money transmitters), and nonprofits, respectively—to identify member organizations that met certain criteria. For banks, we interviewed three extra-large banks (assets of \$50 billion or more) and one large bank (assets of \$10 billion to less than \$50 billion), including banks that provide or use correspondent banking services.² For money transmitters, we interviewed organizations reflecting a range of sizes (from one money transmitter licensed in seven states or territories to three licensed in more than 40 states or territories, according to the Conference of State Bank Supervisors' Nationwide Multistate Licensing System) and representing a variety of business models, including agent-based money transmitters, fintechs that offer mobile remittances, and a money services business that focuses on payment aggregation for other money transmitters. For nonprofits, as well as money transmitters, we selected organizations that transfer funds to a variety of geographic regions—including Africa, Asia, the Caribbean, the Middle East, and Central and South America—and had experienced derisking-related issues.

²These asset size classifications are consistent with the classifications we used in GAO-20-46, GAO-18-313, and GAO-18-263. We obtained asset data from FDIC's Statistics on Depository Institutions database.

In general, we did not include smaller organizations in the discussion groups. Smaller banks typically do not offer international wire services or send funds to recipients in high-risk countries. While our discussion groups also did not include smaller money transmitters or nonprofits, other members of our discussion groups, or other parties we interviewed, were able to speak to their challenges.

To address our second objective, we reviewed prior GAO reports and reviewed federal agency documentation on agency actions taken since January 2018 to address banking access challenges for money transmitters and nonprofits transferring funds to recipients in high-risk countries.³ This documentation included interagency statements and guidance, agency press statements, Federal Financial Institutions Examination Council *Bank Secrecy Act/Anti-Money Laundering Examination Manual* updates, examiner training materials, and emails and other documentation of outreach efforts to banks and nonprofits. We also reviewed relevant sections of the Anti-Money Laundering Act of 2020, which was enacted as part of the National Defense Authorization Act for Fiscal Year 2021. We focused on Treasury and the federal banking regulators' activities at the national level and generally did not examine their involvement in bilateral or international efforts to address broader derisking issues, including issues related to correspondent banking.

To address our third objective, we reviewed the literature described earlier to identify proposals or recommendations for improving banking access for entities transferring funds to recipients in high-risk countries. We also expanded the search to 2015 to ensure we captured known literature from earlier studies and stakeholder dialogues. We focused on proposals involving U.S. government or private industry solutions rather than solutions that would require international organizations to play a key role. In initial interviews, we asked banks, money transmitters, nonprofit associations, other experts, Treasury, and the federal banking regulators about the general feasibility of these proposals. Based on our review of the literature and input from our interviews, we selected seven proposals for further analysis, which generally represented the most commonly cited or promising ideas for increasing banking access.

³See [GAO-20-46](#), [GAO-18-669](#), and [GAO-18-313](#).

The seven proposals fell into four general categories: facilitating bank due diligence, education and knowledge sharing, incentives for banks, and an enhanced federal role.⁴ In our group discussions with banks, money transmitters, and nonprofits, and in interviews with Treasury and the federal banking regulators, we asked about the potential benefits and limitations of these proposals, as well as considerations for how to make them operational. (Federal Reserve staff said they did not endorse or have perspectives to offer on the proposals.)

To characterize bank, money transmitter, and nonprofit stakeholder views in the third objective, we consistently defined modifiers (e.g., “some”) to quantify each stakeholder group’s views as follows: “all” represents 100 percent of organizations, “several” represents 66 percent to 99 percent of organizations, and “some” represents 33 percent to 65 percent of organizations. While the percentages remain consistent, the number of organizations each modifier represents differs based on the number of organizations in that stakeholder group: four banks, five money transmitters, and four nonprofits. Table 2 provides the number of organizations in each modifier for each type of stakeholder.

Table 2: Definition of Modifiers by Stakeholder Group

Modifier	Percentage of views	Number of stakeholders		
		Banks	Money transmitters	Nonprofits
All	100	4	5	4
Several	66–99	3	4	3
Some	33–65	2	2–3	2

Source: GAO. | GAO-22-104792.

For the first and second objectives, we included the views of two additional banks that participated in an interview with the Independent Community Bankers Association. Therefore, we considered the views of six total banks for those objectives and used “all” to indicate six banks, “several” to indicate four to five banks, and “some” to indicate two to three banks.

⁴The literature we reviewed included several general recommendations related to clarifying regulatory expectations. We did not select these for further analysis in our discussion groups, as we discuss Treasury and the regulators’ recent and planned actions and stakeholders’ views on these actions in our second objective.

For all three objectives, we interviewed officials from Treasury and the federal banking regulators, the American Bankers Association, InterAction, and the Money Services Business Association. We also interviewed officials from the Money Transmitter Regulators Association, which represents state regulators of money transmitters; the Independent Community Bankers of America, which represents community banks; the Money Services Round Table and INFiN, a Financial Services Alliance, which represent money services businesses, including money transmitters; the Charity and Security Network, which represents nonprofits; the Center for Strategic and International Studies, a bipartisan think tank that conducts research on humanitarian and other challenges; and an academic expert on humanitarian and security issues. We also interviewed three members of the Association of Certified Anti-Money Laundering Specialists, two of whom are bank employees with BSA/AML compliance roles.

We conducted this performance audit from February 2021 to December 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the National Credit Union Administration



National Credit Union Administration
Office of the Executive Director

December 3, 2021

SENT BY E-MAIL

Michael Clements, Director
Financial Market and Community Investment
441 G Street, NW
Washington, DC 20548
ClementsM@gao.gov

Dear Mr. Clements:

We reviewed GAO's draft report (GAO 22-104792) entitled *Bank Secrecy Act: Views on Proposals to Improve Banking Access for Entities Transferring Funds to High-Risk Countries*. The report reviews challenges related to remittances and money transfers by money transmitters and non-governmental organizations into countries considered high risk.

NCUA, in coordination with the federal banking agencies, will continue to maintain a dialogue with industry segments and provide guidance and training to industry and staff as necessary.

Please contact me if you have additional inquiries or questions.

Sincerely,

Digitally signed by LARRY FAZIO
FAZIO
Date: 2021.12.03 10:25:59
-05'00'
LARRY FAZIO

Larry Fazio
Executive Director

EI/TCS:ts
SSIC 1930

1775 Duke Street – Alexandria, VA 22314-3428 – 703-518-6300

Text of Appendix II: Comments from the National Credit Union Administration

December 3, 2021

Michael Clements, Director

Financial Market and Community Investment 441 G Street, NW

Washington, DC 20548

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Please contact me if you have additional inquiries or questions.

Sincerely,

Larry Fazio Executive Director

EI/TCS:ts SSIC 1930

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Michael E. Clements at (202) 512-8678 or clementsm@gao.gov

Staff Acknowledgments

In addition to the contact named above, Stefanie Jonkman (Assistant Director), Lisa Reynolds (Analyst in Charge), John Karikari, Christine McGinty, Chase Polak, Jessica Sandler, Jennifer Schwartz, Mona Sehgal, Jena Sinkfield, and Farrah Stone made key contributions to this report.

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Washington, DC 20548



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